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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY TRIPOLI — 161 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — October 23 1956 DATE

REF : Deptel 211, October 18, 1956

	ACTION	DEPT.
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SUBJECT: Libyan Economic Development Resources and Agencies

Joint Embassy/USOM Message

The Embassy transmits as Enclosure No. 1 ten copies of a survey of the economic development agencies operating in Libya and the financial resources available to the Libyan Government, both for economic development and for ordinary budgetary purposes. The enclosure is unclassified in order to increase its usefulness both in Libya and in Washington. The Embassy wishes to add in this despatch certain classified comments which could not be included in the survey:

(1) Page 1, second paragraph and page 3, first paragraph: The only development agencies which are not at least technically under Libyan Government control are USOM/L, the United Nations agencies, and IES. The USOM/L-Libyan Government Joint Services are not entirely under Libyan Government control, in that all projects and the administration of the Services are subject to mutual agreement and USOM/L can thus exercise a veto if it so desires. LARC projects financed from ICA Development Assistance funds are also subject to project agreements and thus under greater control than LARC projects financed from the special purpose funds. Over the disposal of the latter funds, the Libyan Government could, if it so desired, exercise final control;

(2) Page 3, second paragraph. The specialized agencies of the United Nations in fact operate in Libya (and presumably elsewhere) to a large degree independently of the Resident Representative's office. They negotiate directly with Libyan Government departments, and the Resident Representative is sometimes left rather in the dark as to their operations. However, since the UNTAB adopted in 1955 the principle of an over-all country allocation of funds for technical assistance purposes, instead of separate allocations to each specialized agency, the Resident Representative has greater influence in coordinating the UNTA program;

(3) Page 6, first paragraph: The Libyan Government reportedly interprets "sympathetic consideration" under the French agreement to mean not less than LL350,000 ($980,000) per year. How much of the funds to be received under the Italian agreement will be allocated by the Libyan Government to economic development remains to be seen. There are allegedly certain war damage claims on the

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part of Libyan nationals which originally formed part of the basis for the Libyan Government's claim for redress from the Italian Government. If there are in fact any valid claims of this nature, the Libyan Government will now have to settle them itself, since the funds received from Italy are supposed to be in settlement of all Libyan claims, public or private.

For the Ambassador:

Rodger P. Davies
Counselor of Embassy

Enclosure:

1. Libyan Economic Development Resources and Agencies (10 copies)

cc: Benghazi

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LIBYAN ECONOMIC DEVELOPMENT RESOURCES AND AGENCIES

Economic development in Libya is carried on by a number of binational or international agencies in addition to the regular governmental departments of the Libyan Federal Government and Provincial Administrations. The financial resources available to the Libyan Government for both economic development and ordinary budgetary expenditures, and the agencies through which the development resources are channeled, are as follows:

AGENCIES

While most of the economic development activities in Libya are financed by foreign governments, almost all of the development agencies are Libyan Government agencies. The agencies in which there is binational or international participation are:

(1) The Libyan-American Reconstruction Commission (LARC), which allocates and supervises the expenditure of funds contributed toward economic development by the United States Government. It is composed of four Libyan and two United States members, and hence it was established under the provisions of a Libyan law, is technically a Libyan Government agency. The two U. S. members are the Director of the United States Operations Mission in Libya and the Senior Economic Officer of the U. S. Embassy. The Commission has an Executive Director's Office which, under the direction of the Commission, compiles and supervises the execution of an economic development program. The Executive Director himself is an American, seconded to the position by the United States Operations Mission. The Commission has set up a Program Committee which includes a member of the Commission, the Executive Director, Libyan Government officials, and representatives of the Libya Public Development and Stabilization Agency (see below), the United Nations Technical Assistance Board (see below), and the United States Operations Mission. The Program Committee coordinates the project and program recommendations of its four Technical Subcommittees, which, each in its own field, (Agriculture

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and Natural Resources, Health and Education, Public Works, and Special Projects) and with the assistance of the Executive Director's Office, review for economic and technical feasibility proposed development projects submitted to them by Libyan Federal Government and Provincial Administration departments. These subcommittees also are composed of Libyan Government officials and representatives of LPDSA, UNTAB, and USOM/L. LARC is a financing and supervisory agency, the actual execution of projects being entrusted to designated "action agencies," usually departments of the Libyan Federal Government and Provincial administrations.

(2) The Libyan Public Development and Stabilization Agency (LPDSA), through which are channeled certain development funds contributed to the Libyan Government by the British, French, Italian, Turkish, and Egyptian Governments. The LPDSA is also established under Libyan law, and although its Board of Directors includes representatives of all the contributing countries mentioned above, the controlling vote rests with the Libyan Government. The British Government is by far the largest contributor to LPDSA, and the General Manager of the organization, who, in consultation with Libyan Government officials, determines its annual development program, is a British engineer.

(3) The Libyan Finance Corporation (LFC), which manages a loan fund contributed by the Italian, French, and British Governments. The Italian Government has contributed the major part of the capital of the LFC, and the Managing Director is an Italian banking expert. The Libyan Minister of National Economy is the Chairman of the Board of Directors.

(4) The National Agricultural Bank of Libya, which, although a Libyan Government agency, was wholly capitalized from LARC funds and is partly staffed by American agricultural credit experts seconded from USOM/L. The Bank is still in the process of organization but when functioning will have a substantial effect on economic development in Libya through the extension of agricultural credit and other services to Libyan farmers and agricultural cooperatives.

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(5) The United States Operations Mission to Libya (USOM/L), which operates a technical assistance program chiefly through the medium of Libyan-American Joint Service organizations supervised by USOM/L and Libyan Government Co-Directors. By agreement, the Joint Services will operate as subsidiary or affiliated Libyan Government agencies under their own terms of reference. The Joint Services have been named action agencies for most of the LARC projects in their fields (Agriculture and Natural Resources, Health and Sanitation, and Education).

(6) The Resident Representative of the United Nations Technical Assistance Board (UNTAB), who coordinates the technical assistance programs in Libya of the United Nations Technical Assistance Mission (UNTAM) and the United Nations specialized agencies (FAO, WHO, UNESCO, UNICEF, ILO and IMO).

(7) The International Educational Exchange Service of the U. S. Department of State (IES), which provides certain exchange-of-persons grants. Its principal activity in Libya at the present time aside from a few leader and specialist grants to Libyan Government officials, is the provision of the services of an American educator as Dean of the College of Arts and Education of the University of Libya.

(8) The Development Council, which has recently replaced the former Economic Planning Committee. The Council is meant to be the top planning and coordination agency for economic development in Libya. Although the Council itself is composed entirely of Libyan Government officials, its executive staff is expected to be made up largely of experts provided by the U. S. and British Governments and UNTAB. The Deputy Resident Representative and Chief Economist of UNTAB has been named Director of the executive staff.

(9) The Federal Supervisory Committee for Relief Wheat, which makes the final determination on allocations to the Provinces of relief wheat contributed by the U. S. Government. Allocations are made on the basis of certified lists of destitute and unemployed persons, which are submitted to the Federal Supervisory Committee by the Provincial administrations. The Director of USOM/L is a member of the Committee, the

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other members being Libyan Government officials, including representatives of LPDSA, which is charged with the local storage and distribution of the wheat. The Minister of National Economy is the chairman of the Committee.

The regular Libyan Government departments or agencies chiefly concerned with economic development are as follows:

(1) The Ministry of Finance, the Permanent Under Secretary of which is the Chairman of LARC, LPDSA, and the Development Council. He is also the Libyan Supervising Co-Director of the Libyan-American Joint Services. The Ministry of Finance is charged with the execution of the Libyan Federal Government's annual budget laws, under which a certain amount of developmental work is accomplished by various Federal Ministries. The Ministry of Finance is charged also with the execution of the Exceptional Budget Law of 1955, which allocated for development purposes certain savings from previous ordinary budgets.

(2) The Provincial Administrations (Cyrenaica, Tripolitania, and the Fezzan), which have their own ordinary budgets involving some developmental expenditures by various Provincial Nazirates (Departments).

DEVELOPMENT RESOURCES

The financial resources, both actual and prospective, which are or will be available to the above agencies, are as follows (see also Table 1):

(1) Funds made available to LARC by the United States Government. These funds are divided into two categories: (a) those made available to the Libyan Government under the provisions of the Libyan-American Economic Aid Agreement of September 9, 1954. A total of $39,000,000 will be paid to the Libyan Government from U. S. Government special-purpose funds over a period of ~~seventeen~~ eighteen years on the following schedule: 1954/55 through 1960/61 (seven years) - $4,000,000 per year; 1961/62 through 1971/72 (eleven years) - $1,000,000 per year. An additional amount of $3,000,000 was paid under this agreement in 1954/55 from ICA Development Assistance funds. Prior to the signing of the September 9 Agreement, $1,000,000 had been paid under a previous agreement, making a grand total

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of $43,000,000 in all; (b) those additional sums subsequently made available from ICA Development Assistance funds. So far, these have amounted to $5,000,000 in 1955/56 and a prospective amount of $7,000,000 in 1956/57. The estimated world-market value of relief wheat granted to Libya by the U. S. Government has been included in Table 1, although strictly speaking it is not a development expenditure.

(2) Funds made available to LPDSA. In conjunction with its 1953 treaty of alliance with Libya, the British Government agreed to provide £L 1,000,000 ($2,800,000) annually for five years (1953/54 through 1957/58) for development and stabilization purposes. Prior to the termination of the five-year period, the British obligation was to be reviewed to determine the level of further contributions. The expenditure of the above funds is supervised by LPDSA. The French, Italian, Turkish, and Egyptian Governments have contributed to Libya minor sums for development purposes, which are also channeled through LPDSA. Under the terms of LPDSA's charter, one-quarter of the funds it receives are to be allocated to a "stabilization fund," which would be used to purchase surplus Libyan grain stocks in good crop years and would be replenished by sales in poor crop years. (In actual fact, there have been no good crop years since the establishment of LPDSA, and the stabilization funds have been used for relief purposes, in large part to pay the local costs of distribution of U. S. relief wheat). Consequently, only three-quarters of the funds contributed to LPDSA are available for development purposes. In Table 1, however, total contributions to LPDSA are shown as development resources.

(3) Funds made available to the Libyan Finance Corporation. The Italian, French, and British Governments, as well as the Banque d'Algerie et de Tunisie, have contributed the amounts shown in Table 1 for the capitalization of the LFC, which was established to make loans for development purposes.

(4) Technical assistance allocations and relief wheat costs, as shown in Table 1 for USOM/L, the United Nations agencies, Egypt, and Turkey.

(5) Supplementary funds which are expected to be made available to the Libyan

4/13/56

Government under recent Libyan agreements with the Italian and French Governments. Neither of these agreements has as yet been fully ratified, and the actual date of receipt of the funds is not yet known. The French agreement reportedly involves contributions to LPDSA of £L 150,000 ($420,000) for 1955/56 and £L 350,000 ($980,000) for 1956/57, plus "sympathetic consideration" of Libyan economic development needs during the twenty-year life of the agreement. The Italian agreement provides for the payment of £L 1,000,000 in cash within three months of ratification and £L 1,750,000, divided into three annual installments, in credits for the purchase of Italian industrial products.

(6) Budgetary funds allocated by the Libyan Federal Government and Provincial Administrations to economic development or to capital expenditures which may be considered developmental (Table 1a). The most important item under this heading is the Federal Government's Exceptional Budget of 1955, which allocated for development purposes certain unexpended funds from the Federal Government's ordinary budgets for 1953/54 and 1954/55. The amount of the Exceptional Budget was originally £L 1,275,000 ($3,570,000). It was later reduced to £L 975,000 by the transfer of £L 300,000 to the ordinary budget to pay the costs of the locust-control campaign of 1955. Still later, additional credits of £L 200,000 were added to the Exceptional Budget to pay part of the costs of transferring the seat of the Federal Government from Tripoli to Cyrenaica, leaving a final total of £L 1,175,000 ($3,290,000).

In both the Federal and Provincial ordinary budgets, allocations are made to three headings - personal emoluments, general expenditures, and new works, the last being capital expenditures which might be considered developmental in nature.

However, neither the Exceptional Budget of 1955 nor the ordinary budget capital expenditures are additive to the combined total of the resources shown in Tables 1 and 2. They represent only a transfer from Table 2 to Table 1.

BUDGETARY RESOURCES

The ordinary budgetary resources available to the Libyan Government (Federal and Provincial) are shown in Table 2. They are additional to the resources shown in Table 1.

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4. Mr. Pitt Hardacre read the following letter from the Permanent Under Secretary of Finance to Mr. Gordon dated June 8, 1956 which reported

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The Libyan Government itself does not publish its budget in the manner shown in Tables 1 and 2. Part of the developmental resources shown in Table 1 are included in the published budget and part are not (the part not included consists of the Development Assistance funds provided by the U. S. government; the relief wheat costs; the technical assistance costs borne by USOM/L, the United Nations agencies and Egypt; and the LFC contributions. Of the Italian and French supplementary contributions under the recent agreements, only a part of the French contribution is as yet reflected in a Libyan budget.

The foreign budgetary grants shown in Table 2 are given to the Federal Government but are in effect passed on to the Provincial Administrations to supplement their inadequate domestic revenues. The domestic revenues shown for the Federal Government come almost entirely from customs duties, and those of the Provincial Administrations from income and property taxes, the profits of state monopolies, and the income from provincially operated services (harbors, railways, airfields, etc.). Provincial revenues from domestic sources are in fact larger than Federal domestic revenues, since most governmental services are provided and most taxes levied by the Provincial Administrations rather than the Federal Government. However, since the Federal Government took over the most lucrative single source of domestic revenue (the customs service), Provincial revenues have covered only about half of their expenditures, and the Federal Government is forced to subsidize the remainder. The Federal Government's domestic revenues more than cover its own operating expenditures, and the remainder of its budgetary income (other than amounts specifically earmarked for development) goes into the Provincial subsidies.

F.K. Lundy
19 October 1956
Tripoli, Libya.

the preparation and introduction of new legislation, e.g. in respect of co-operatives, provided improved conditions or

LIBYAN GOVERNMENT - Financial Resources Available for Economic Development

(In thousands of U.S. dollars - one Libyan pound equals US$2.80)

	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	Total a/
United States Government b/								
IARC (special purpose funds)	0	0	1,000	4,000	4,000	4,000	4,000	c/ 40,000
IARC (development assistance funds)	0	0	0	3,000	5,000	7,000	-	15,000
USOM/L (technical assistance)	1,537	1,343	1,493	1,654	1,939	est 2,610	-	10,576
USOM/L (relief wheat) d/	0	0	656	1,920	2,000	2,000	-	6,576
United Kingdom Government								
LPSA	1,092	1,621	2,800	2,800	2,800	2,800	2,800	16,713
IFC (contribution to capital)	28	0	0	0	0	*	*	28
Italian Government								
LPSA	28	196	0	28	est 28	est 28	-	308
1956 Agreement (not yet ratified) e/	-	-	-	-	-	-	4,439	7,709
IFC (contribution to capital)	168	336	0	0	0	*	*	504
French Government								
LPSA	280	364	280	210	est 0	f/(est 658)	-	1,134
1956 Agreement (not yet ratified) e/	-	-	-	-	420	980	-	2,400
IFC (contribution to capital)	84	84	0	0	0	*	*	168
Turkish Government								
LPSA	0	0	0	28	est 28	est 28	-	84
Relief wheat d/	0	0	160	0	0	*	*	160
Egyptian Government								
LPSA	0	0	0	29	est 28	est 28	-	85
Technical assistance (personnel subsidies)	na	na	est 480	est 840	est 840	est 840	-	3,000
Banque d'Algerie et de Tunisie								
IFC (contribution to capital)	0	28	0	0	0	*	*	28

Table 1 - Cont'd.

	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	Total a/
United Nations Technical Assistance b/ (includes UNTAA, FAO, WHO, UNICEF, UNESCO, ILO, IMO)	715	892	763	639	est 750	est 750	-	4,145
Total	3,930	4,824	7,632	15,148	17,833	21,084	11,233	107,931

Table 1(a)

Libyan Government (capital expenditures)								
Federal: Exceptional budget of 1955	0	0	0	0	i/ 3,290	?	-	3,290
Ordinary budget	na	na	600	919	est 1,132	est 1,147	-	3,797
Provincial: Ordinary budget k/	na	na	na	est 376	est 629	est 146	-	1,171
TOTAL	3,930	4,824	8,232	16,442	22,884	22,377	11,233	116,169

Note: Libyan fiscal years (April 1 through March 31), except as otherwise indicated.

Symbols: na = not available
- = contributions not yet determined but considered likely to continue
* = contributions considered unlikely to continue.
est = estimated.

a/ Total already received or fairly definitely committed.
b/ U.S. fiscal years.
c/ Includes $4,000,000 per year through 1960/61 and $1,000,000 per year thereafter through 1971/72.
d/ Relief wheat contributions have been valued in this table at $80 per ton.
e/ The agreement calls for payment to Libya of $2,800,000 within three months after ratification and the opening of credits for the purchase of Italian industrial products of $4,900,000 in three annual installments beginning in 1957/58.
f/ This figure appears in the Libyan budget but reportedly represents part of the $980,000 payable under the 1956 agreement.
g/ These funds are reportedly to be channeled through LPDSA.
h/ Calendar years commencing with 1952.
i/ Expenditure to be spread over several years.
k/ Data only partially available: 1954/55 figure includes Cyrenaica only; 1955/56 includes Cyrenaica and the Fezzan; and 1956/57 includes the Fezzan only.

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TABLE 2

Libyan Government

Financial Resources Available for Ordinary Budget Expenditures a/

(In thousands of U.S. dollars - LL 1 = $2.80)

	1953/54	1954/55	1955/56	1956/57
Domestic Revenue				
Federal	6,100	7,916	7,766	9,398
Provincial				
Cyrenaica	2,378	2,309	2,373	2,396
Tripolitania	5,771	6,639	6,966	7,252
Fezzan	150	142	215	220
Total Domestic	14,399	17,006	17,324	19,266
Foreign Budgetary Aid				
Great Britain	7,700	7,700	7,700	b/ 9,100
France	457	344	0	0
Total Foreign	8,157	8,044	7,700	9,100
GRAND TOTAL	22,556	25,050	25,024	29,366

Note: Libyan fiscal years (April 1 through March 31).

a/ The 1953/54 and 1954/55 figures for the Federal Government's domestic revenues and the foreign aid are actual receipts. The remaining Federal Government figures and all the Provincial Administration figures are budget estimates.

b/ Reported increase resulting from Anglo-Libyan negotiations in June 1956.

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